The Economics Of Surviving in a Competitive Climate:

What Work Must Be Done To Understand Customers?
by: Christy Joiner-Congleton

Current Situation

Properties are approached constantly by vendors offering to help them through the current challenging and competitive environment. Can these vendors truly help? The questions posed and answered in this paper are: What help is really needed? How can a property figure out what help to seek and how to best utilize that help? Who are these vendors? What parts of the work can vendors provide and what can realistically be done in-house?

To survive and thrive in a competitive environment these questions must be asked and answered. Each property must make some critical decisions and do some very necessary work. This paper lays out reasons for change, the types of work that needs to get done, and various approaches to getting the work done, whether on property or via vendors. Let's get started, there's real work to be done and the competitive clock is ticking.

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Why Casinos MUST Work Harder

According to the American Gaming Association (AGA), by 2012, there were more than 979 casinos (commercial, tribal and racinos) in the US (counting land/river based, racetrack, and tribal casinos) with more being added every year. This compares with a total of 932 casinos in 2007. So the number of casinos grew by 5% over the five-year period.

In the same period, total gaming market revenue in the US declined 5% from $37.52 billion at the peak in 2007 to $35.64 Billion in 2012. Of course, the combined effect of more casinos and less aggregate gaming revenue results in the average revenue per casino declining by a whopping 9.6% in the five-year period (2007 to 2011). The year-ending results for 2012 indicate that the industry has almost recovered to its 2007 level of income with $37.34 billion in gross gaming revenue (GGR), but there was some attrition in the process. More casinos competing for the same or fewer dollars in the aggregate are a clear prescription for a competitive fight to stay alive. In the economic challenge of a maturing market, some properties will survive, others will be absorbed, and some will cease operations. Darwin would suggest the next five to 10 years could be characterized as a period where only the fittest casinos survive. But what does it mean to be fit, in this environment, and how does a property get "fitter" so that it is more likely to survive and prosper?

Survival will be based upon the customers that are available. Survival means under-standing the market reality in such a way that you can be both pro-active and reactive. To succeed, an active, learning process is required. A property must match its brand to suit the viable and profitable customers that it continuously identifies.

With more competitors scrambling for gaming dollars, less discretionary money in the hands of customers, and a very modest (less than one percent a year) growth in the number of customers visiting a property even once, fitness will be measured by the ability to get, keep, and retain profitable customers. The key here is understanding which customers can be retained under the umbrella of the current brand, resource base, and available incentives. A long, deep, detailed look at the customer base is absolutely imperative. The hardest part of this effort is deciding which customers can NOT be retained profitably.   Guiding the choices of whom to keep and what to spend to keep them, profitability must be the over-riding mantra—EBITA rules. You must know your customers well, or at least better than your competition.

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The work you must do is clear—you must understand your customers. Of course, that leads to a deeper question: how do you bring this mystery to light? There are many vendors selling flashlights, search lights, and everything in between. The good news is that your customers are "knowable" – that is that you have a wealth of information that will assist you in forming a clearer picture of who they are and what their motivations are. You have already started the work, even if you are not aware that you have, because you are required to maintain transaction level data that can be harnessed. You have enough information about your customers to make a good start at understanding them and refining your approach through on-going experimentation with that information. It is common for properties to feel that their own data storehouse is so fraught with errors of omission and commission that the net result will be of no value. But that is far from the truth. Even if your data is regularly mangled by your processes, statistically speaking, you still have more than enough insightful data to make these choices. This is due to a probability theory often referred to as the "law of large numbers"—the sheer volume of customers on property allows for some messiness in many records without destroying the ability to draw valid conclusions --and presents the opportunity for progress. Perhaps, that is not a relief, but a responsibility. Nevertheless, it is a cold hard statistical reality.

For more than a decade, Stics has looked at customer data in all shapes and sizes, and heard properties decry the status of their data as "a mess" or describe it with a string of expletives. But, in the end, even when it is messy, it can be a gold mine of information. There is no escaping the responsibility ahead. Guessing will not win. The work to understand the customers must be taken up!

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What MUST Get Done

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Steps That MUST Be Taken

The good news is that the work itself is not a mystery. It can be disassembled into readily understandable tasks. You can do it yourself or you can get help from those vendors outside the door in all or in parts. However, you must be warned of the dangers in taking on this work. To be successful, you must get all the work done, not just part of it. While every part of the work represents progress, getting only part of the work done, will cost money and fail to yield the competitive edge that requires you take on the work in the first place. The mission of this paper is to break down the work that really has to be done into readily understandable and different parts. This is especially important when evaluating in-house project requirements or external proposals. Understanding these parts will empower a casino to decide what it currently has that can be deployed in this hunt and who among the possible vendors and strategies available can complete the task.

To better understand your customer base, each of the following steps must be taken. It will then be possible to evaluate potential solutions, external and internal, relative to that necessary work and likely price tag, and finally make a decision.

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1 Collect

Collect data about your customers. You can think of this as the data stored in your installed casino management software system (CMS, whatever its brand). That data is nearly always available (possibly needs help, but it is there) and is the place to start. If available, it is beneficial to add information from your customer relationship management (CRM) system (if you have a supplemental one), your hotel system, kiosk systems, POS systems, and credit systems, and even your machine database.

2 Integrate

Integrate this data together as a dimension of the customer. This means more than the obvious idea of merging hotel folio stays and offer data to customers, but lies in disassembling and re-assembling information about customers to speak to the customers themselves and not the different aspects of behavior one at a time. Often this data is stored in many separate tables that are organized by day, or by transaction, or by offer, rather than collected together to address each unique customer by itself. The data must exist in this form to actually assess what's important to the customers who have been on property and what's important to their profitability.

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3 Hardware Up

Secure sufficient dedicated computer power to be able to do the work without dragging the systems upon which you depend to their knees or, alternatively, require all the work to be done between the end of the gaming day or accounting day and the beginning of the work day. Doing this work in the middle of the night in a batch fashion will slow down the process considerably. This hardware must have some serious CPU and RAM capacity. You don't want to put your IT staff in the position that they must sacrifice understanding to keep the floor operational.

Tool Up 4

Acquire a tool or set of tools that allows data to be reviewed or reported. These basic tools, such as MS SQL, are usually matched with the environment on property. What is your native data environment, for instance? Look there for the raw database tool to select, move and transform data. These are not expensive and are different from business intelligence tools in general.

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5 Describe

Describe your customers. Find/train/hire someone who can thrash through data with basic tools and who is able to describe the customers and business situation. This does not have to be a statistician, but rather someone who knows how to operate the basic tools described in step 4.

6 Measure

Measure your customers. Find/train/hire someone who knows what questions to ask about the customers in the first place. This needn't be the same person identified in step 5. In fact, it is not likely to be the same person. Getting meaningful assessments of player value means that someone has to understand the fundamentals of gaming operations well enough to establish what is worthy among customers. What cannot be measured, cannot be improved, or, if improved, cannot be evaluated.

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7 Construct

Construct profitability plans appropriate for your business goals. Find/train/hire someone with enough expertise to more than report on the data or ask interesting questions. You will need someone who can discover relationships in and among the customer data elements. The measurer mentioned in step 6 may have identified some factors that the property believes are salient to performance, but does not necessarily have any idea about how to evaluate the factors in the data itself. This individual understands the language of inference and statistics and their application to gaming. Such a person can tell the difference between cause and effect and coincidence in the data and can come up with a profitability algorithm for customers. Without such an algorithm, all the other steps taken above will leave you no better off in your understanding of your customers.

Software Up 8

Software Up. Make sure that there is software, process or code available, whether developed in-house or acquired that the constructive analyst mentioned in step 7 can use to evaluate the algorithms and get the prescriptions delivered. This is likely going to be a statistical software tool set, either inside another application, available as an add-in, or a separate free-standing application. This software absolutely must work with the tools otherwise available in the property's lexicon and on the dedicated hardware that was mentioned in step 3.

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9 Test

Specific testable recommendations must be created or adduced to create measurable progress toward the goal of improved profitability. Each of the steps in this list provides an opportunity for some unexpected issue or challenge to creep into the process. This is a necessary part of progress, not to be feared, but rather to be expected and anticipated. What is sought here is not a "big bang" theory of progress, but rather a steady course to profitability, a continuous improvement process. If things change tomorrow, and they certainly will in a maturing market, what is needed is a process that can adapt. Testing will allow change to take place at minimal cost and maximal gain.

10 Believe

There must be support within the organization that provides the ability and willingness to act and react to the measurements, algorithms, and recommendations about customers, the deployment of tests based on the recommendations, and the results of attempts at change. This individual must have some clout in the organization, be able to take responsibility for change, and stay the course. Therefore, someone of courage must exist in an executive management position. Someone who is passionate about customers and dedicated to operating from actual metrics, in addition to gut feel. Gut feel is, after all, a very valuable commodity. In fact, that gut feel might be the basis for many measured and testable recommendations and algorithms. A good 10-step program appreciates the abstract ideas and intuitions, but provides a mechanism where these ideas and intuitions can be deployed in meaningful and measurable ways.

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Perhaps the best way to think of these 10 steps is as a checklist for evaluating the status within the organization. Figure 1 is such a checklist. How many of the boxes can be checked in the "Got It Covered" column? More importantly, what is not checked there and is still needed going forward? These items represent your shopping list for inside or outside resources. A vendor that does 5 may not do 6. Software that does 4 may not do 3.

Figure 1

WORK NEEDED	GOT IT COVERED	NEED TO ADD	INSIDE OUTSIDE	PRICE	TIME TO IMPLEMENTATION
Collect					
Integrate					
Hardware					
Tool up					
Describe					
Measure					
Construct					
Software UP					
Test					

Click to download your chart.

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What Are the Options to Get This Work Done?

So there are 10 things that must get done in order to better understand your customers, to survive, and to thrive. But, they needn't all be done in-house. You must assess which parts of the work you can do profitably inside and which parts you cannot. You must know from existing vendors what parts of the work they actually do (among the 10 steps) and, perhaps more importantly, what parts of the work they do not do, so that you will be able to complete an estimate of the entire effort. This section of this paper discusses the types of vendors that are currently available as well as the part or parts of the work they typically do. Finally, this section will also map these vendors by cost and functionality so that you can look at them all at a glance.

First, let's think about the options available to fill in the "needs" column in the previous checklist. In order to choose between inside and outside, cost and coverage need to be considered. There are dozens of vendors in the gaming market today that offer to do the work in some, but not all, of these steps. Clearly, steps one and 10 (Collect and Believe) cannot and should not be fully off-loaded. These require some effort that can only take place on property. However, the remaining steps 2 through 9 might be dealt with in-house or outside.

To address the available solutions comprehensively, let's consider the technologies in convenient groups. These groups contain solutions that are very similar to one another and significantly different from other available options. By taking a group approach, individual vendors become less important than the work being accomplished, and, after all, our mission here is to get the work done to better understand our customers

That being said, here are the groups of vendors and a brief look at the work that each does, according to the steps indicated in the previous section.

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Zip

The first group is really endemic to every business decision. Doing nothing at all is always an option, but there is an "opportunity cost". Thus, the ZIP group is synonymous with "go-go-status-quo" or undertaking no new work. The costs of this group are harder to understand, because choosing this group really means remaining exposed to the competitive forces with no new efforts. There are costs, but they tend to be buried in the loss of customers, profitability, and control of business. In this case, about 10 to 15% of the work is being accomplished (mostly from steps 1 and 10) for other reasons on property, making the incremental cost and the incremental progress near zero.

In-house (IH)

The option to do the 10 steps yourself, in-house (IH), is also available. This group requires the reinvention of some wheels already invented elsewhere, of course, but has some advantages in terms of control. A survey of industry turnover was performed by Stics in 2011 which indicated that average time in job was two years. Given the high turnover rate experienced at many properties, it is important to include the cost of staff turnover and project length when filling out this column of the previous checklist (Figure 1). The cost of this effort should be estimated, pricing out acquiring the resources for each part of the work that is not currently underway separately. To evaluate this choice on the summary chart below, estimates will be made for a property of median size (a casino with 800 to 1000 machines) Those estimates offered as a reasonable starting point for the analysis. Each step that is attempted in-house in should be estimated as the price of an appropriately BS-degreed individual with an equal amount of external resource, be it hardware, software, tools, training, or other internal resources. A reasonable cost estimate for each of these steps is about $100,000, depending on your market. In addition, a month or two of lapsed time should be added for each phase to be accomplished. IH efforts to accomplish the remaining 85% of the work therefore are in the neighborhood of $850K over a year or more, if all are attempted. As this task will take more than a year, but less than two years, it would be reasonable to spread the cost and work accomplished across eighteen months. (This means two thirds of the cost and work get done in the year.)

Consulting Services (CNSL)

Missing parts of the work outlined here can be filled in by outside consultants. They tend to produce results more quickly than in-house projects or large tool installations, but can be temporary fixes, rather than on-going resources. Also, the end-of-contract planning for consultants needs to be factored into the costs of this alternative. Nevertheless, for work that might be less than full time or for parts of the project where it doesn't make economic sense to hire full-time resources, consultants have a very relevant position in many of the 10 steps. When engaging a consultant for part of the work, be sure to consider adding periodic refreshes of the work to the cost estimate, rather than a one-time service arrangement. Consultants tend to focus on steps 5 through 7, as well as 9 (doing some testing). It is reasonable for you to expect a consultant to do roughly 35% of the work with a one-time cost in the neighborhood of $250,000 to $500,000.

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Big Business Intelligence Tools (BBI)

This refers to the two dozen or so BI tool vendors that offer their services in many industries, including gaming, and regularly show up on the Magic Quadrants of Gartner Group or on the top 10 grids of independent evaluators like Software.com. These vendors are typically not industry folks, but rather data folks, and this makes a difference when planning the work. These BBI tools tend to be quite costly, and require a commitment of training and refreshing knowledge. The work that is needed in this industry is the ability to aggregate, disaggregate, join, move, and report on customer behaviors, building up from the raw elements in the database. This is separate from the kinds of features upon which such tools are typically evaluated (as in the Software.com evaluation features: SaaS platform, on-premise platform, data collection, 3rd-party data integration, data visualization, customizable dashboards, ad hoc analytics & reports, 3rd-party data integration, on-premise platform data collection, self-service and mobile accessibility, etc.). The important issues for these choices are that you are attempting to accomplish the Integrate, Describe, and easure steps with these tools. These tools are often limited in their industry specificity, and training and customization are paramount in order to get the "industry feel" into the product. BBI vendors do a very good job of providing solutions to steps 3, 4, 5, and 8, and can do roughly 40% of the work, but have a price tag of $500,000 to $1.0 million in the first year.

Industry Business Intelligence Tools (IBI)

These are database tools that have some industry knowledge built in, and so will save you some of the integration effort. These tools are usually acquired from an industry software provider, IGT or Ballys to name just two, from whom other functionality is delivered and who may have acquired or pre-integrated a general BI tool into their platform. These tools provide the opportunity to view data that might be identified with industry terms, such as GGR, Theoretical, or Average Daily Worth. The strength of these tools is their sheer comprehensive nature—lots of data is available. These tools often contain multiple database tables that are provided with a roll up data cube. Most of the interesting data can be found in these data cubes. However, little is done in these data collections to change the structure and organization of the data. Ultimately, this approach often dictates that the various diverse dimensions of these data tables may or may not be coalesced into a customer profile. The weakness of these tools is that they often don't provide guidance regarding which numbers to view, what the numbers might imply for operations, or what actions these data prescribe. IBI vendors typically add some of Step 2 to and step 6 to their bids, upping their work load to 55-60% of the work, and, as value-add tools status, range in price between $300,000 and $500,000 a year.

Small Business Intelligence Tools (SBI)

SBI tools usually capture a property's data, summarize or interpret it, and place it into a browser or on-line (SaaS) accessible data cube, ultimately delivering that data back to a property in another form. Usually, this is in the form of a collection of reports, charts, and graphs or tools to query the data cube. These tools save money for the property, by not requiring local hardware or software, but typically do not provide the flexibility, control and comprehensiveness of an IBI tool. Savings is reflected in a lower price for the SBI tool, and is a step forward for properties without an IBI, BBI or in-house tool development process. They do not construct recommendations and prescriptive algorithms. Instead, they provide the property with the opportunity to investigate their own historic data and develop their own ideas about what should be done, and they do this often with less cost than if the property itself were to create it. SBI vendors do less of the work than the IBI vendors because their solutions are externally delivered and do not have quite the range of functionality of the BBI toolset or the IBI depth. A reasonable estimate of the work done by SBI vendors might be 40%, but their costs are going to be in the neighborhood of $120,000 a year.

Predictive Analytics (PA)

Note that providers of PA in a one-time consulting services are grouped with CNSLT group above and not considered on-going solution providers. Instead, the PA group consists of providers that collect a property's data on a periodic basis, do all the integration, analysis, modeling, and construction in the SaaS mode (or as an on-site canned install), delivering actionable recommendations each period (usually, but not always monthly). These providers typically augment an in-house mail list with a recommended mail list (or incremental list), evaluate offers, strategize with the in-house teams, and deliver performance analysis for all customers in the database. Work from steps 2 through 9 can be accomplished by a PA supplier at a fraction of the cost that a property might invest in an attempt to achieve the finished recommendations through an in-house process. Of course, like the SBIs above, data is conveyed periodically to the PA vendor and that might cause some concern for properties with privacy constraints. These vendors can deliver recommendations very economically. The greatest challenge may be suspension of disbelief that there could actually be valuable customers not identified by other less sophisticated techniques. PA vendors do a bulk of the work – 70% to 80%, of the work necessary to understand customers – and typically cost between $100,000 and $250,000 per year.

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What Strategy Is Right for Your Organization?

Having described the steps that must be accomplished to understand and act upon player profitability and having arrayed the possible approaches to this work outside and inside the property, we can now develop a framework to make the costs and benefits of such an effort clearer.

Let's compare and assess the universe of solutions available to properties with this more refined lens. The following graphic (Figure 2) brings it all together. Figure 2 shows the groups of vendors matched against the 10 steps of the work process. In Figure 2, the vertical axis shows the % of work typically accomplished by this group of vendors (how many of the ten steps are taken by them) and the horizontal axis indicates the estimated cost that might show up in a bid by a vendor from the relevant group at a property of median size.

Figure 2

COST-WORK TRADEOFF
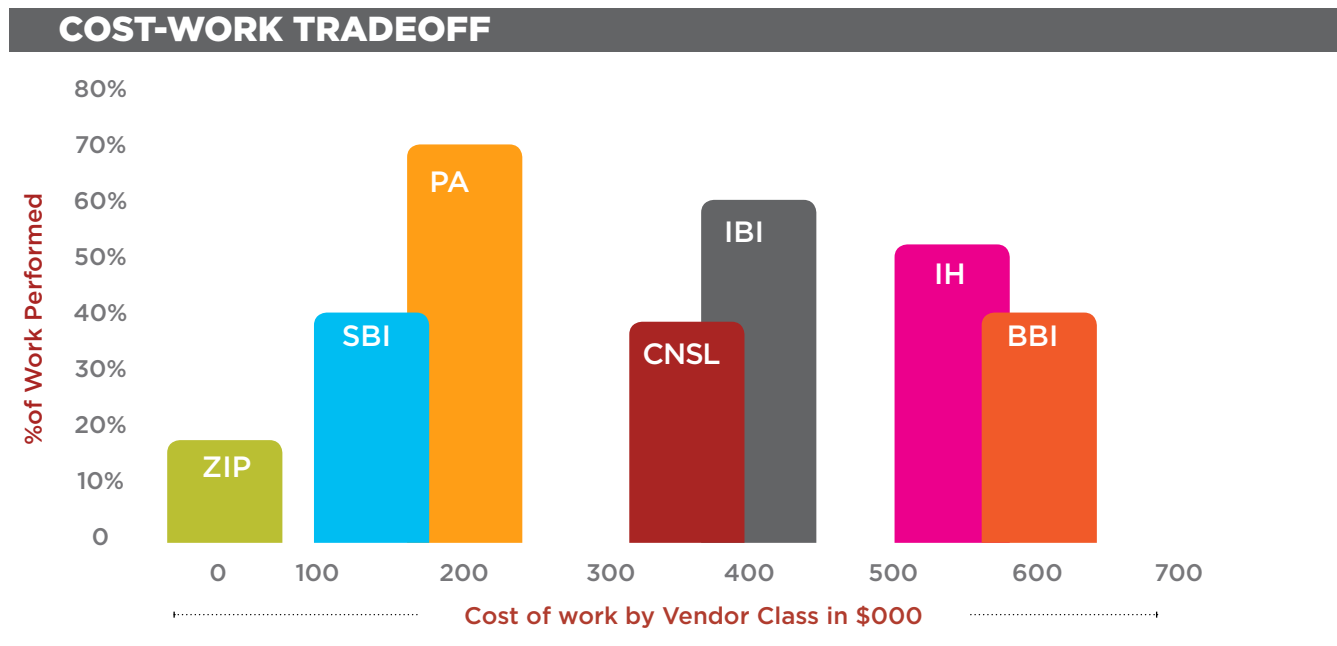
Clearly, you needn't do this work yourself, but you might wish to. Ultimately, there are choices between independence and completeness, control and cost, and what is already on property and what is missing that need to be made. Now you can ask yourself, where the holes are in your organization and which of those holes you prefer to fill in-house or through outside sources. The answers to these and the following questions are ones of policy that each property must answer for itself.

a. How much of the work should you take on? Depends on your organization.

b. How much of the work is worth doing? Compare the value of the piece of work to the value of customer attrition.

c. How much of this work of this work do you NOT want to do? Focus on the chart in Figure 2 to determine the type of vendor you might need to enhance your efforts.

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Conclusions

In this paper, a close look was taken into the nature of competition in the casino industry. The burden that competition places on a property naturally selects those properties that best understand their customers and that can take steps to spend according to their customers' profitability. Given the clear need to understand customers as well as possible in order to survive and thrive, work that is currently being partially done, must be done completely. There are no half-steps.

To develop these ideas into a plan of action, a practical framework was developed whereby a property can assess its current ability to best understand its customers in terms of how much of the work is being done and how much work remains to be done. It was also stressed that understanding customers in a maturing market is a continuous improvement process than a one-time assessment. Recognizing that not all the work that must be done should be done in-house, this paper developed a list of possible vendor groups that could fill in the gaps in a property's quest for customer understanding. Finally, it compared the amount of work and the cost to get this work done for those groups of vendors.

In Summary

1 You must get busy and get some new and different kinds of work done if you are to prosper in difficult circumstances.

2 You can do a lot of this work yourself, but not without risk. You don't have a lot of time to get going.

3 Steps you are missing imply that you must fill in gaps with outside tools.

4 Comparing solutions across the spectrum from in-house to integrated large tools, to completely outsourced (PA—SaaS), it is possible to anticipate what the effort will take in terms of cost and time.

5 Although you can't really change the list of necessary work, you can take a hard lookat your property and its tools. You have flexibility and the power to decide.

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How Stics Can Help You Get The Work Done

Although there is no formula or textbook strategy for developing the perfect understanding of your customers, Stics® can help create personalized strategies to get your casino nearer to your ideal database profitability. Regardless of the various investment avenues, each casino is investing in its customers and intends to invest optimally. Based on customer behavior and the patented Stics models, SticsPredicts can identify who your more valuable customers will be tomorrow and how much to offer them today. Knowing this information can lower total marketing reinvestment costs, without changing your current players club reward system and can help get your most profitable customer to your casino. Stics helps you identify these customers, tailor your offers to them to an amount or percentage of reinvestment that is affordable and intended.

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